11 April 1985

MEMORANDUM FOR THE RECORD

SUBJECT: Summary of 9 April OGI Conference on World Oil

1. The consensus of the group was that OPEC is doing a remarkable job holding the line on prices, that it could muddle through with either no or only slight additional declines in crude prices, and that OPEC members in general are getting much better at controlling supplies. One company estimated the possibility of a substantial price decline or increase at 10 percent each. Maurice argued that there was much more downside risk than the consensus, partly because of the possibility of a recession, the possible end to the Iran/Iraq War, and dollar depreciation. [redacted] Brookings, in contrast, argued that OPEC capacity has slipped while the decline of Euoprean currencies has reduced demand by around 1.5 million b/d, indicating that spare capacity might decline sooner than the group anticipated. 25X1

2. No one thought that the increase in OPEC refining capacity would put downward pressure on crude prices because there were too many other ways already to cheat. One company analyst produced his company's "cheat list" which contained perhaps a dozen items. He told a story about negotiating prices with Algeria and, after covering most items on the sheet, being reminded by the Algerians that they also produced refined goods.

3. The oil company representatives generally felt that inventory declines had ended and that the worst was over for OPEC this year.

4. No one would venture a guess as to where oil prices would stop in a "free" fall or would venture a guess as to the marginal cost of producing energy. One oil company representative argued that $25 per barrel was an important break point below which many US financial institutions would be hurt seriously by a price decline. The company reps in general thought that sharply lower prices would bring a rapid decline in US production as a result of an end to expensive secondary and tertiary recovery programs.

[redacted] 25X1

A/NIO/Econ